Interpretation of Federal Financial Accounting Standards 3: Measurement Date for Pension and Retirement Health Care Liabilities

Status

Issued	August 29, 1997
Effective Date	For fiscal periods beginning on or after September 30, 1997
Interpretations and Technical Releases	
Affects	None.
Affected by	None.

Summary

Pension and retirement health care liabilities in general purpose federal financial reports prepared pursuant to SFFAS 5 shall be measured as of the end of the fiscal year (or other reporting period if applicable). This measurement shall be performed following the end of the period reported, but does not have to be based on a full actuarial valuation as of the end of the reporting period. The measurement shall, however, reflect the best available estimates of the major factors that would be reflected in a full actuarial valuation. This measurement may be based on an actuarial valuation performed as of an earlier date during the fiscal year, including a beginning-of-year actuarial valuation, with suitable adjustments for the effects of changes during the year in major factors such as the pay raise, cost of living adjustment, etc.

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Introduction

1. The Federal Accounting Standards Advisory Board (FASAB) was asked to endorse use of an actuarial valuation as of the beginning of the fiscal year to measure the pension and retirement health care liabilities in general purpose financial reports prepared pursuant to Statement of Federal Financial Accounting Standards Number 5 (SFFAS 5). This has been the practice in some of the special purpose financial reports on pension plans that are prepared pursuant to Public Law 95-595. OMB and GAO issue instructions for preparing the reports required by PL 95-595.

2. The plan reports called for by PL 95-595 receive scrutiny from congressional staff. Based on past experience, some actuaries were concerned that differences between actuarial measurements used in different reports would cause problems and confusion. Some people who support using a beginning-of-year valuation also were concerned about the potential for disagreements between auditors and preparers if projections or estimates were used instead of a full actuarial valuation. Other people, on the other hand, believed that measurements for recognizing liabilities in financial statements prepared pursuant to SFFAS 5 should be as of the end of the reporting period, and that a measurement based on a projection or "roll forward" of a full actuarial valuation would be appropriate if it were not feasible to perform a full actuarial valuation as of year end.

Interpretation

3. Pension and retirement health care liabilities in general purpose federal financial reports prepared pursuant to SFFAS 5 shall be measured as of the end of the fiscal year (or other reporting period if applicable). This measurement shall be performed following the end of the period reported, but does not have to be based on a full actuarial valuation as of the end of the reporting period. The measurement shall, however, reflect the best available estimates of the major factors that would be reflected in a full actuarial valuation, such as the actual pay raise, the actual cost of living adjustment, and material known changes in the number of employees covered (enrollment) that cause a change in the liability.

4. This measurement may be based on an actuarial valuation performed as of an earlier date during the fiscal year, including a beginning-of-year actuarial valuation, with suitable adjustments for the effects of changes during the year in major factors such as the pay raise, cost of living adjustment, etc. This is sometimes referred to as a measurement based on a "projection" or "roll-forward" of the most recent available actuarial valuation. In evaluating the effect on the liability caused by changes in enrollment for plans that cover employees of more than one reporting entity (e.g., CSRS, FERS), materiality shall be assessed at the plan

level. In evaluating the effect on the liability caused by changes in enrollment for plans that cover employees of only one reporting entity (e.g., Coast Guard, Department of State), materiality shall be assessed at the reporting entity level.

Scope of Interpretation

5. This interpretation applies to pension and retirement health care liabilities recognized in accordance with SFFAS 5 in general purpose federal financial reports, such as financial statements prepared pursuant to the Chief Financial Officers Act of 1990, as amended. It does not apply to reports on pension plans pursuant to the requirements of PL 95-595.

Effective Date

6. This interpretation shall be applied for reporting periods that end on or after September 30, 1997. The FASAB has reviewed and agreed with this interpretation. After this interpretation is signed by the FASAB members who represent the Department of the Treasury, the Office of Management and Budget, and the General Accounting Office, it will be published by OMB and will be effective. [Note: see Foreword for explanation of new procedures to reflect SAS No. 91 and revised FASAB MOU]

Appendix: Basis For Conclusions

7. SFFAS 5 defines standards for recognition and measurement of pension and retirement health care liabilities, which are reported as of the balance sheet date. Although SFFAS 5 does not explicitly discuss the measurement date, its provisions implicitly call for measurement at year end. “Measurement” implies estimation based on the best available information at the time, but does not necessarily require a full actuarial “valuation” as that term is used by actuaries.

8. To avoid potential confusion, ambiguity, or conflict with auditors, some people would prefer to use a beginning-of-year valuation (which is permitted by private sector standards for plan reporting pursuant to SFAS 35), or at least would prefer to use beginning-of-year enrollment while updating the valuation for other changes during the year (e.g., interest rate assumptions, COLAs, salary increases), which generally are more significant.

9. The Board acknowledges that changes in enrollment during the year will rarely lead to a material change in the liability, and that such changes will therefore not be a factor in some years. Nevertheless, in those years when a material change in the liability does arise because of a change in enrollment during the year, that change should be reflected in the measurement. Conceptually there is no reason to treat enrollment differently from other factors used in the measurement. The Board also acknowledges that precise enrollment data may not be readily available soon after year end, when the measurement is to be performed. The Board does not believe that this should normally present a problem, however, because absolute precision regarding enrollment should not be necessary, given a reasonable definition of materiality.